

**Genesee County Storm Water
Management System**
**(Genesee County Drain Commissioner Division of Surface
Water Management)**

Financial Report
September 30, 2008

Genesee County Storm Water Management System

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Independent Auditor's Report

To Mr. Jeff Wright
Genesee County Drain Commissioner
Genesee County Storm Water
Management System
Flint, Michigan

We have audited the accompanying basic financial statements of Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) (a component unit of Genesee County, Michigan) as of September 30, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Genesee County Drain Commissioner Division of Surface Water's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Genesee County Storm Water Management System as of September 30, 2008 and the changes in financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Genesee County Storm Water Management System. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

December 12, 2008

Genesee County Storm Water Management System

Management's Discussion and Analysis

Using this Annual Report

Genesee County Storm Water Management System (the "System") is the organization of storm water management services within Genesee County. The System was established in 2001 by the Genesee County Board of Commissioners (the "Board") under and pursuant to Act 342, Public Acts of Michigan 1939, as amended. The primary role of the System is to enable Genesee County (the "County") and the cities, villages, townships, and charter townships located within Genesee County ("member communities") to comply with the U.S. Environmental Protection Agency's Phase II Regulations. The activities to comply with the regulations include (a) public education and participation, (b) monitoring and mapping, which involve illicit discharge detection and elimination, and (c) best management practices for storm water discharge management controls. The Genesee County Drain Commissioner is designated by the Board as the County agency responsible for the operation of the System.

This annual report consists of a series of financial statements and notes. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the System. This is followed by the statement of cash flows, which presents detailed information about the changes in the System's cash position during the period. The next section includes the notes to the financial statements, which disclose the System's significant accounting policies and additional information related to certain amounts included on the statement of net assets.

Financial Overview

The management's discussion and analysis is intended to serve as an introduction to the System's basic financial statements. In analyzing the System's financial position, it is important to recognize the mission of the System. As discussed above, the System's core objective is to implement storm water management services for the member communities within Genesee County. The evaluation of the financial data for the System relates to the measurements of the ability for the System to meet its goals by efficient operations as opposed to the ability to accumulate financial resources.

- The assets of the System exceeded its liabilities at September 30, 2008 by \$348,874 (net assets).
- The System's net assets decreased by \$525,944 during the fiscal year.
- Cash and cash equivalents were \$494,327 at September 30, 2008.

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The System charges its member communities and the County amounts equal to the System's cost of providing storm water management services. The operating plans for the Storm Water Management Program are set in five-year operating cycles. Charges per each member community, including the County, during this operating cycle have been \$3.00 per household on an annual basis. The contract in effect for this fiscal year expired May 1, 2008 and thus the charges for this reporting period are reflected at \$1.50 per household. Expenses affecting each member community have varied throughout the five-year time frame. Under the contract in effect for the 2008 fiscal year, all fees collected and expenses have been recorded per member community. Surplus funds remaining from the payments by the County and member communities at the end of the previous fiscal periods have been utilized for storm water management activities in subsequent fiscal years. Member communities requested to be billed quarterly in equal installments with the knowledge that excess funds from earlier years have been accumulated and are being utilized in later years when expenditures exceed revenues.

The following table represents condensed information about the System's financial position:

	September 30, 2008	September 30, 2007
Total assets - Current	\$ 494,327	\$ 1,076,323
Total liabilities - Current	<u>145,453</u>	<u>201,505</u>
Total net assets - Restricted for storm water management activities	<u>\$ 348,874</u>	<u>\$ 874,818</u>

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the System's revenues and expenses:

	Year Ended September 30, 2008	Nine-month Period Ended September 30, 2007
Operating Revenue - Contributions from member communities	\$ 246,460	\$ 369,690
Operating Expenses		
Public education and participation	78,680	20,570
Monitoring and mapping	710,092	447,273
Best management practices	18,225	65,052
Total operating expenses	806,997	532,895
Other Nonoperating Income	34,593	46,161
Change in net assets	<u>\$ (525,944)</u>	<u>\$ (117,044)</u>

Economic Factors and Next Year's Operating Plans and Rates

The economy of Genesee County over the last several years has been a concern due to local employment conditions. These local conditions are reflective of state and national trends. Despite the economic challenges, Genesee County Storm Water Management System was able to operate without any amendments to the five-year operating plan dated October 1, 2003 which expired May 1, 2008. The plan for the next operating cycle was adopted by the Genesee County Board of Commissioners in October 2008 and is currently in the process of being adopted by each member community. In the plan adopted in October 2008, charges to members for services were amended from the rates in effect for the fiscal year ended September 30, 2008 to cover the expenses of the System for the next five-year operating cycle.

Contacting the System's Management

This financial report is intended to provide our member communities with a general overview of the System's finances and to show the System's accountability for the money it receives from the member communities and the County. If you have questions about this report or need additional information, we welcome you to contact the Genesee County Drain Commissioner.

Genesee County Storm Water Management System

Statement of Net Assets September 30, 2008

Assets - Cash and cash equivalents (Note 3)	\$ 494,327
Liabilities	
Accounts payable	141,703
Advances from member communities and the County	<u>3,750</u>
Total liabilities	<u>145,453</u>
Net Assets - Restricted for storm water management activities	<u><u>\$ 348,874</u></u>

Genesee County Storm Water Management System

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2008

Operating Revenue - Contributions from member communities	\$ 246,460
Operating Expenses	
Public education and participation	78,680
Monitoring and mapping	710,092
Best management practices	<u>18,225</u>
Total operating expenses	<u>806,997</u>
Operating Shortfall	(560,537)
Nonoperating Revenue - Interest income	<u>34,593</u>
Decrease in Net Assets	(525,944)
Net Assets - Beginning of year	<u>874,818</u>
Net Assets - End of year	<u><u>\$ 348,874</u></u>

Genesee County Storm Water Management System

Statement of Cash Flows Year Ended September 30, 2008

Cash Flows from Operating Activities

Cash received from member communities	\$ 314,033
Cash payments to suppliers for goods and services	<u>(920,681)</u>
Net cash used in operating activities	(606,648)

Cash Flows from Investing Activities - Interest received on investments 34,593

Net Decrease in Cash and Cash Equivalents (572,055)

Cash and Cash Equivalents - Beginning of year 1,066,382

Cash and Cash Equivalents - End of year \$ 494,327

Reconciliation of Operating Shortfall to Net Cash from Operating Activities

Operating shortfall	\$ (560,537)
Adjustments to reconcile operating shortfall to net cash from operating activities - Changes in assets and liabilities:	
Change in due from members - Quarterly billings	9,941
Change in accounts payable	(53,052)
Change in advances from communities	<u>(3,000)</u>
Net cash used in operating activities	<u><u>\$ (606,648)</u></u>

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2008

Note 1 - Nature of Entity

Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) (the "System") was established in March 2001 by the Genesee County Board of Commissioner's Office pursuant to Act 342, Public Acts of Michigan, 1939. Genesee County Storm Water Management System is responsible for administration services necessary to enable the County and the cities, villages, townships, and charter townships located within the County to comply with the Phase II Regulations established by the United States Environmental Protection Agency (EPA) in the Federal Register on December 8, 1999. The Drain Commissioner's Office was designated and appointed as the "County Agency" for the System to manage and operate the System.

Operating Plan Information - A five-year operating plan was adopted on the full-accrual basis of accounting. The five-year plan was prepared by the System's director and was adopted by the Genesee County Board of Commissioners and the member communities. The operating plan that was in effect for this fiscal year expired on May 1, 2008. The plan for the next operating cycle commencing October 1, 2008 was adopted by the Genesee County Board of Commissioners and is currently being adopted by each member community.

The plan has been adopted on a straight-line basis; expenses are set not to exceed the net assets.

There were no overruns in comparison to the adopted plan at September 30, 2008.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The System is a component unit of Genesee County, Michigan (the "County") and is included in the basic financial statement of the County. The System was established by the Genesee County Board of Commissioners pursuant to Act 342 of the Public Acts of Michigan, 1939. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Operating Revenue - Operating revenue represents billings to member communities based on the System's five-year operating plan.

Bank Deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Due from Other Governmental Units - Due from other governmental units represents amounts that will be collected from the member communities to pay for the System's operational and administrative costs.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2008

Note 3 - Deposits and Investments (Continued)

The Drain Commissioner has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, and CDs, but not the remainder of state statutory authority as listed above. The Drain Commissioner's deposits and investment policies are in accordance with statutory authority.

The Drain Commissioner's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Drain Commissioner's deposits may not be returned to it. The Drain Commissioner does not have a deposit policy for custodial credit risk. At year end, the Drain Commissioner had \$556,407 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$456,407 was uninsured and uncollateralized. The Drain Commissioner believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Drain Commissioner evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, and errors and omissions. The System is being operated as part of the Genesee County Drain Commissioner's activities. The Surface Water Management Division of the Genesee County Drain Commissioner's insurance would cover the activities of the System.